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INTELLIGENCE HIGHLIGHTS -- WEEK OF 6 JANUARY - 12 JANUARY

13 January 1948

GENERAL

China exhibits active interest in Korea.

China's active interest in Korea is evidenced by the report that prior to the arrival of the UN Temporary Commission in Seoul on 8 January, Liu Yu-wan, Chinese Consul General in Seoul with the rank of Minister and China's delegate, contacted various Korean leaders including Moderate Dr. Kim Kiu Sik and Extreme Rightist Rhee Syngman. Liu also held a press conference in which he stated that if the Soviets refused to admit the UN Commission to North Korea, the Commission would refer the problem to the Little Assembly for the next diplomatic move.

Plans to withdraw Australian Troops from Japan abandoned.

Minister for the Army Chambers announced on 8 January that the Australian Government has abandoned all plans for withdrawing forces from the British Commonwealth Occupation Forces in Japan because of the expected delay in concluding the Japanese peace treaty. The withdrawal of British troops may necessitate alterations in the strength and disposition of the Australian troops in Japan. These alterations will be discussed with Lt. General Robertson, commander of BCOF, on his forthcoming visit to Australia scheduled for the middle of January.

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JANU

Present status of Japanese repatriation. As of early December there remained to be repatriated 773,560 Japanese nationals out of an original overseas strength of 6,507,253. From Manchuria and Soviet-controlled areas 767,113 have yet to be repatriated of which total there are 3,000 in Dairen; 261,003 in Karafuto and the Kuriles; 65,290 in Manchuria and 496,349 in Siberia. Repatriation from Siberia has been drastically reduced for the winter months due to ice clogged harbors.

Repatriates from Soviet-controlled centers continue to profess a violent abhorrence of things Communistic due to their treatment at USSR hands. Soviet propaganda with prospective repatriates appears to have been increased and as an integral part of that propaganda their physical living conditions have been improved. On the surface, however, it appears that there continue to be few Japanese arriving from Soviet territories who have become enthusiastic converts of Communism.

Sabotage of the Japanese economy? At the end of the year 1947, the Japanese economy was still in a critical state. Despite many factors favorable to recovery, the industrial establishment was still no more than just over 40 percent of the 1930-1934 level (the level selected by the IEC as basis for the standard of living of peacetime Japan); inflation was serious, and black markets rampant. Responsible leaders decried the economic crisis, but seemed powerless to improve the standard of living or to stimulate business leaders to greater efforts.

The economic difficulties in Japan have resulted in several commentators raising the specter of internal sabotage. This sabotage is said to have in mind the reduction of reparations and a more liberal peace treaty. If such be the plan, there is evidence of some degree of success. The Pauley Report, which was the first comprehensive survey of Japanese economy for the purpose of determining what reparations should and could be taken, has long been on the ash-heap. There are indications that even the much more liberal Strike Report which was made subsequent to the Pauley Report is to be superseded by recommendations of easier terms. In addition, two years after the surrender, the US is still being called upon for sizeable shipments of essential imports, particularly of food.

However, it seems doubtful that a concerted effort by the Japanese leaders to sabotage their own improvement could escape the attention of the supervisory authorities. SCAP, well aware of the slow pace of Japanese recovery and of the forces tending to retard it, brought to the attention of the Japanese Government the critical condition of that country's economy in the early part of 1947. This action was accompanied by the "suggestion" that drastic steps be taken to effect an improvement.

Critics of the extent of Japanese recovery may be overlooking the problems which are inherent in the post-war situation, and which cannot be immediately solved. The entire Japanese economy is being reorganized. Land reform is being effected; the industrial structure is being overhauled and reorganized. Japanese recovery is dependent upon the renewal of its overseas trade, and

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time must elapse before financial arrangements can be effected to enable Japan to procure raw materials which it needs for its production of exports.

The truth probably lies somewhere between the extremes of concerted sabotage and every effort toward recovery. The Japanese are undoubtedly attempting to keep at a minimum removals for reparations and to arouse world sympathy so as to secure a soft peace. However, in general, they are working toward the difficult goal of establishment of the Japanese economy on a sound basis.

Tax collections lag in Japan. Tax collections in Japan have fallen far behind the scheduled amount. Back taxes for the current fiscal period are reported to aggregate about 100 billion yen. Because of this lag, the Finance Ministry has already issued bonds amounting up to 32 billion yen. Moreover, note issue has already reached the unprecedented figure of approximately 230 billion yen.

The failure of the Japanese Government to collect such a large amount of scheduled taxes is further aggravating the inflation. The deficit financing which is being carried out has already served as a stimulus to serious inflation. The Government has attempted to balance the budget, but the failure to collect anticipated tax revenues necessarily imposes additional inflationary pressure.

The most logical explanation of the unusually large lag in the collection of taxes seems to be that the Japanese people have not yet become adjusted to a new form of collection. However, the arrears may also be due in part to over-estimates or to hostility to payment to meet a budget, one-third of which consists of occupation expenses.

KOREA

Lack of public confidence in new North Korean currency. Although it is not possible at this time to judge the success of the recent currency conversion in North Korea (see FE/P Weekly Summary, 9-15 December 1947), there is a definite lack of public confidence in the new currency. Black market prices appear to have soared. While holders of ration cards may purchase goods, when available, in the government-controlled stores at the announced low levels, persons not holding ration cards face real hardship. The present black market price of rice is from 500 to 750 yen per unit as compared to the pre-conversion price of 300 to 500 yen and the present price in government-controlled stores of 30 yen. In addition, the USSR is spending the new currency freely. This factor and the uncertainty as to the future value of the new currency are reflected in the increased black market prices.

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CHINA

Internal Affairs

Additional information on the formation of a "Kuomintang Democratic Group" in Hongkong now indicates that the announced program of this group includes a) achievement of more amicable relations with the USSR; b) unification of democratic parties, including the Chinese Communists and the Democratic League; c) land reform. Feng Yu-hsiang, warlord recently expelled from the Kuomintang, and Tsai Ting-kai, leader of a group of southern dissidents, are now reported to be members of the group. Military support remains unknown; it is probably very limited.

Hongkong was also the scene of the opening of the third plenary session of the Democratic League. Although the League is banned in China proper, a League leader in Hongkong stated that he could not accept "dissolution made by force". Calling the Nationalist leaders tools of US reactionaries, this leader stated that the League will fight to destroy the Nanking regime. In general, the Democratic League group in Hongkong is thought to be further to the left than the father organization, now suppressed, in China proper.

The National Government's planned political and military reorganization in North China is going badly. The Hopei Provincial Government is still in a disorganized state, with Fu Tso-yi, Nationalist military leader in that province, having assumed obligations which are beyond his power to discharge. Neither Li Tsung-jen nor local troops commanders are expected to give Fu the whole-hearted cooperation which would be one prerequisite to the success of his program. Fu's authority, already seriously limited by Communist control of large areas around him, is further conditioned by the fact that his troops will have to be spread very thin through five northern provinces. In addition, his position is complicated by the demands of the military situation in Manchuria, where the Government is still endeavoring to prop up its tottering structure by the dispatch of reinforcements that may make further incursions into Fu's military strength.

External Affairs

Peiping's Legation quarter was formally returned to China on 26 December with the signing of the necessary documents by consular officials of the US, the UK, France, Belgium and the Netherlands.

The departure of the Chinese Technical Mission to Washington to aid in the drafting of a program of US aid has been set for 14 January. It is headed by Fei Tsu-yi, former Governor of the Central Bank of China. Yu Ta-wei, Minister of Communications, previously mentioned in connection with the Mission, is not coming.

The Soviet Military Attache in Nanking, General Roschin, left for Moscow on 8 January, in response to a sudden summons.

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China and Hong Kong have reached an anti-smuggling accord which provides that Chinese products arriving in Hong Kong must have prior clearance with Chinese customs and that remittances to Hong Kong be limited.

The Soviet Consul General in Shanghai, through public notification, required all Yugoslavs to register at the Soviet Consulate General between 15 and 20 December last.

There has been an increase in Soviet hostility and security precautions toward US official personnel in China, with the evident intent of closing off sources of information within the Soviet community in China.

Economic

Currency-Prices. The inflationary upsurge was resumed during the week ^{ended} by the price of rice: this commodity reached a new high of CN \$1,400,000 per picul in Shanghai. The US dollar blackmarket rate in Shanghai was reported over CN \$200,000 on 8 January, but recovered to 192,000 on the next day. This is still a substantial jump from the 152,000 level registered at the end of the previous week and over 40% higher than the rate of 2 December 1947. The "open" (official foreign exchange) rate has remained CN \$90,000 since 30 December. Money appears to be plentiful in spite of the government's tight money policy and police controls. CN \$ note issue is now reported at 300 billion a day. Uncertainties over currency reforms and general lack of confidence in market improvements continue to affect the sensitive Shanghai scene.

Foreign Trade. Shanghai trade sources report that recommendations are being made to the Executive Yuan to modify the present foreign exchange regulations applicable to merchandise purchased abroad with free exchange, imported into China in the raw state and processed for re-export. Under the suggested plan exporters would be required to sell to the government only that portion of the foreign exchange as represented by the value of the domestic labor and materials in the finished export product.

Finance Minister C.K. Yui announced that the average monthly foreign trade deficit during 1947 was over US \$20 million.

Smuggling. China and Hong Kong have reached an anti-smuggling agreement. Chinese products arriving at Hong Kong must have prior clearance by the Chinese Customs, and remittances from China to Hong Kong are to be limited.

Budget. C.K. Yui reports that 1947 expenditures were CN \$40 trillion, four and half times the budget, while revenue was only twice that the amount budgeted, or CN \$13 trillion.

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Coal Shortage. Shanghai coal shortage is bordering on an emergency. Repeated disruptions in shipments of Kailan coal to Chinsangtao have cut deliveries to 7,000 tons for the month ending 7 January, as compared with approximately 150,000 tons in previous months. Although stock piles are accumulating at the Kailan and Huainan mines owing to lack of transportation facilities, the reserves in Shanghai are estimated roughly at two weeks supply. Official conferences regarding a solution are in progress.

Transportation - Air. An agreement under which Major General Chennault's China Air Transport would be placed on the same commercial level as China's old air lines has been submitted to the Executive Yuan for approval. If the agreement is approved, this air transport service would concentrate on air-lifting cargo centering many of its operations in the Hankow area.

UNRRA Fish Catches. A temporary settlement has been reported in the month-old fish market dispute. A decision by the Executive Yuan authorizes the UNRRA supplied, Chinese-controlled, Fisheries Rehabilitation Administration to supply up to 500,000 catties (550,000 lbs) of fish to the Shanghai market a month; catches in excess of this quota will be purchased by the Ministry of Agriculture and the Central Trust for re-shipment to other cities. UNRRA considers the Yuan ruling as an unsatisfactory compromise since the competition by FRA catches will thus be limited to roughly 6% of the average monthly capacity of the market. This freedom from FRA competition will assure, at least temporarily, a middleman monopoly over the retail price of fresh fish by the well organized private fishing interests. UNRRA has endeavored to increase the supply of fish and lower prices to the consumer.

Military

The Communists are not, contrary to reports in the Chinese press, withdrawing northward from the Mukden area, but are now attacking in force at Chinchow and in the area east of Hsinmin. The Nationalist Manchurian command admits the loss of the effective fighting strength of one army and that their losses for the past week totalled about 12,000 men. As a result of these losses the Nationalists are not immediately capable of carrying out any extensive operations.

In North China, Communist harassment continues to prevent Fu Tso-yi from dispatching reinforcements from his command to Manchuria. While Communist units move southward from the Shantung Peninsula across the Chiao-tsi railroad, Chen Yi broke off his attack in the Kaifeng area and now continues to elude Nationalist efforts to trap him.

Rumors continue to state that Chen Cheng, due to a stomach illness (variously reported as duodenal ulcers, perforated ulcers, and a knife wound), will be forced to give up his joint position as Chief of Staff and head of the President's Northeast Headquarters. According to Stuart, Chiang Kai-shek has already asked Chang Chih-chung to take over the Chief of Staff office.

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